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ABSTRACT

A study by the American Council on Education examined the conditions and needs of the private sector of higher education. The policy options outlined here are in four categories. The first category, improving federal-state coordination of policies affecting private institutions, proposes two ideas: a request by the President that each state develop an explicit policy for support and adequate representation of private institutions in its planning; and additional federal incentives for state support. The second category, assuring students reasonable choice, proposes modifying federal grant programs in student aid to reflect differing student needs and differing institution costs (with specific suggestions for each program); and providing more equitable distribution of student aid funds. The third category, sustaining the viability of postsecondary institutions, makes six suggestions: (1) provide realistic administrative cost allowances for all student aid programs; (2) encourage the self-development of small colleges; (3) provide loans and cost reimbursement to help institutions meet the costs of implementing federally-mandated social programs; (4) provide federal matching grants to states that provide institutional support funds to private colleges; (5) review administrative policy on cost-of-education payments; and (6) create measures for relieving acute financial distress. Finally, incentives are proposed for private support of postsecondary institutions. (MSE)

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POLICY OPTIONS FOR FEDERAL CONSIDERATIONS

U S DEPARTMENT OF HEALTH
EDUCATION & WELFARE
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Policy Analysis Service

American Council on Education

April 1976

This report was done as one part of a study of the private sector of higher education, carried out under USOE CONTRACT 300-75-0375.

BACKGROUND

On April 9, 1975, President Gerald Ford addressed a letter to U.S. Commissioner of Education Terrel Bell requesting a report on the condition of small private liberal arts colleges and on possible measures to help them; these colleges, cited as a "valuable national resource" by the President, were deemed to be in especially serious difficulty because of growing financial pressures which threatened their viability. In turn, Commissioner Bell requested Roger W. Heyns, President of the American Council on Education, to form a group of advisors who could review the problems of private colleges and recommend to Commissioner Bell and President Heyns special public policy measures which might be helpful in overcoming adverse conditions. On July 15, President Heyns invited sixteen leaders of higher education to participate in the review, and they accepted. (Their names are included in Exhibit A.)

Commissioner Bell contracted with the American Council on Education to conduct special analyses and to provide staff services aimed at assisting the advisory group in their review and at advising the U.S. Office of Education on specific aspects of the conditions and needs of the private sector of higher education. Since July 1, 1975, the Council staff--including members of the Policy Analysis Service, the Office of Academic Affairs, the Office of Administrative Affairs and Statistics, and the Office of Governmental Relations--has been engaged in these analyses and services.

The advisors met together on three occasions: September 16, October 30, and December 1 and 2, 1975. The September meeting was devoted to reviewing the origin of and plans for the study,

including presentations of ACE projects, and to considering the tentative USOE outline of its proposed report to President Ford. The October meeting involved reviews of USOE draft materials to be included in the report and of "Possible Elements of Federal Policy Supporting Private Higher Education," a paper on policy options for federal consideration prepared by ACE and sent by President Heyns to the advisors on October 23. At the third meeting in December, the draft USOE report to President Ford was reviewed, progress reports on the ACE studies were made, and a special policy option developed by ACE--namely, a tuition-flexible grant to replace the current Basic Educational Opportunity Grants program and the Supplemental Educational Opportunity Grant program--was discussed. ACE provided staff services for the three meetings, including travel arrangements and meeting facilities for the second and third meetings.

OVERVIEW OF THE COMPLETED PROJECT

In fulfillment of its contract with the U.S. Office of Education (USOE No. 300-75-0375), the Council submits its findings in the form of separate reports. The specific analyses which together constitute the Council's study of the private sector of higher education are as follows:

- A Financial Taxonomy of Institutions of Higher Education
- Public and Private Higher Education: Differences in Role, Clientele
- Four-Year Baccalaureate Completion Rates: A Limited Comparison of Student Success in Private and Public Four-Year Colleges and Universities
- Development and Application of Measures of Financial Conditions of Colleges and Universities

The subjects covered by these reports are significant to policy formulation for higher education, and the progress made so far is sufficient to warrant our conducting additional analyses. Thus, though the reports are submitted in completion of contract, ACE will continue to pursue its own interests, and its shared interests with the U.S. Office of Education, in these areas.

Specifically, the financial taxonomy of higher educational institutions should prove a significant tool for further study of the conditions of higher education: The classification of institutions by clusters based on their financial characteristics permits the development of public policy proposals directly related to the revenue and expenditure patterns of colleges and universities. The description of public and private higher education with respect to differences in role, character, and clientele not only gives a comprehensive account of the current status of higher education institutions but also contains useful empirical data for

formulating public policies related to specific differences between public and private educational programs. Likewise, the analysis of baccalaureate completion rates in public and private four-year colleges and universities can be carried into additional areas, and policy implications can be developed. The report on the development and application of measures of the financial conditions of higher educational institutions promises to be especially useful in illuminating what is currently an obscure area and in providing a more solid foundation not only for public policy analysis and action but also for internal management and planning.

Each of these reports examines the current condition of private higher education and highlights the critical role of the small private liberal arts college in extending educational opportunity. Taken together, they indicate that private institutions now face special problems that raise serious questions about their future, and, indeed, about the continued vitality and diversity of higher education in the United States.

It is clearly in the national interest that these institutions remain strong and healthy; their survival and development should be encouraged by appropriate national policies and programs. Consistent with its broad commitment to expand educational opportunities for all citizens, the Federal government could take a variety of steps to assist private colleges and their students and to stimulate increased support from states and private sources.

OPTIONS

In response to President Ford's concern over the problems of the private colleges, a number of options can be identified for consideration. These options are grouped under four general headings, as ways to (1) improve Federal-state coordination of policies affecting private institutions, (2) provide student assistance which assures reasonable choice as well as access, (3) meet the Federal responsibility for helping sustain the viability of postsecondary institutions, and (4) provide positive incentives for private giving to institutions of higher education. Nearly all the options identified would not only address the problems of one sector of postsecondary education but also would assist the entire spectrum of higher education institutions.

I. Improving Federal-State Coordination of Policies Affecting Private Institutions

The states, which have primary responsibility for all levels of their education systems, have taken diverse approaches to the support of higher education. Some states provide substantial assistance; others, none at all. Each state should evaluate the educational needs of its citizens and decide the extent to which it should assist private institutions in providing funds for scholarship programs, operating expenses, capital costs, and so forth.

A. The President could ask each state to develop an explicit policy for the support of private higher education and to assure adequate representation of the private sector in all its planning activities for postsecondary education.

The Federal government has a broad commitment to extend educational opportunities for all citizens, but this commitment

cannot be met unless each state adopts policies consistent with the national interest. Thus, not only must private higher education be given explicit encouragement, but also this sector must be represented in the educaticnal planning process.

B. Additional Federal incentives could encourage state support of private institutions and their students.

The Federal government can appropriately provide incentives for states to encourage enrollments in private institutions and to recompense them for expanding the educational programs available within the state. Some specific options are discussed below.

II. Assuring Students Reasonable Choice

True educational opportunity cannot exist unless students have access to the type of postsecondary institution most appropriate to their needs. Existing Federal student aid programs could be made more tuition-flexible, so that needy students will have a real choice of attending private institutions, which are higher-priced because they are not subsidized by the state. (It is assumed that the student and his/her family are primarily responsible for meeting educational costs and that Federal assistance is designed to close the gap between the expected family contribution and total educational costs.)

The following steps can be taken to make Federal programs more effective instruments of access and choice and to provide additional and more equitable funding of student aid:

A. Extend the principal of differential awards to all Federal grant programs to reflect differing student needs and differing institutional costs.

This goal could be achieved by modifying either the Basic Educational Opportunity Grant (BEOG) or the Supplemental Educational Opportunity Grant (SEOG) programs and by amending the State Student Incentive Grant (SSIG) program, as follows:

1. The BEOG program could be amended so that the award base was adjusted according to instructional costs of the institution attended. Such a grant could be a two-stage percentage of need related to cost, up to a maximum ceiling, (e.g., 80 percent of need for cost levels up to $2,000 or $2,400, 40 percent of need for costs between the first level and $3,500 or $4,000 as a cost ceiling).

Under this proposal, the SEOG program would be eliminated. BEOGs would provide both access and choice, enabling students to make their educational plans in advance with certain knowledge of the Federal assistance they would receive. (See Appendix A for full discussion of this option.)

2. Alternatively, the SEOG program could be modified to give students attending private institutions a greater proportion of awards. SEOGs would thus become the principle vehicle for choice, while BEOGs would provide basic access. This alternative would require an accompanying increase in the BEOG maximum to assure adequate funding of aid for students attending public institutions. SEOG funding would have to be tied to a minimum percentage of BEOG appropriations to guarantee choice as well as access.

3. The SSIG program could be amended to provide Federal incentives for state tuition-offset programs. Some 12 states already provide such assistance to reduce the tuition gap between public and private institutions. In addition to the current 50-50

matching SSIG program, supplemental grants could be offered to match state tuition-offset payments to students. Grants should be based on a percentage of average instructional costs in state institutions, thus removing the temptation to increase tuitions in private institutions.

4. Aside from new provisions for SSIG awards, the current SSIG program could be expanded to provide larger Federal grants to the states, thereby giving the states a further incentive to increase the size and scope of their programs.

B. Provide more equitable distribution of student aid funds.

This goal could be accomplished by making the following changes in existing programs:

1. The state allocation formulas for the three campus-based programs - (SEOG, College Work-Study[CWS], and National Direct Student Loan [NDSL]) - prescribed by Title IV of the Higher Education Act, could be modified to end their discriminatory treatment of private institutions. SEOG, CWS, and NDSL are supposed to consider cost/need in determining grant awards. Therefore, needy students going to higher-priced schools should get proportionately higher awards, and states with high proportions of enrollments in private institutions should get more funds. Current state allocation formulas, however, are based largely on the state's proportion of total enrollment, and therefore seriously understate cost/need. In 1974, for example, Texas, where only 15 percent of postsecondary enrollments are in private institutions, received 65 percent of its panel recommendation for initial-year SEOGs, whereas Massachusetts, where 56 percent of postsecondary enrollments are in private institutions, received only 31 percent of its

panel recommendation.

The formulas could be improved by giving each institution in the nation of proportionate share of funds based on its relative enrollment of eligible students and its cost of attendance.

2. Portability could be required as a condition of any future grants to states under SSIG. It is in the national interest to break down educational tariff walls between the states: SSIGs could be made to any qualified applicant within the state, to attend the public or private institution of his/her choice in any state.

As a further condition of eligibility for SSIGs, states could be required to take adequate measures to inform secondary school students of the availability of scholarship awards and to encourage them to continue their education. This stipulation would stimulate greater coordination between secondary schools (particularly in their counseling activities), Educational Opportunity Centers, and postsecondary institutions. In view of their increased administrative responsibilities imposed on the states by such a provision, 5 percent of the Federal grant could be authorized for state administrative expenses.

3. Appropriations for CWS and Special Services programs could be increased. If needy students are to be given sufficient job opportunities to meet the costs of their education, and if institions are to meet the costs of compensatory programs for disadvantaged students it is essential that these programs be adequately funded.

III. Sustaining the Viability of Postsecondary Institutions

The pressures of inflation, recession, and changing enrollment patterns have had a serious impact on the financial condition not

only of the small private liberal arts college but on the total spectrum of postsecondary institutions. The following are some steps which the Federal government could take in recognition of its responsibility to help sustain the higher education enterprise in general, and the small private liberal arts college in particular:

A. Provide realistic administrative cost allowance for all student aid programs.

The three campus-based programs (SEOG, CWS, NDSL) permit institutions to use 3 percent of their allocations for administrative costs. No administrative allowance is made for BEOGs or for Federally Insured Student Loans (FISL), even though institutions must perform the same administrative functions for students in these as in other programs: e.g., interviews, counseling services, assistance in completing forms, needs analysis, packaging of assistance. Numerous cost studies have determined that the direct administrative costs of student aid programs to institutions varies from $42 to over $100 per federally aided student.

A realistic cost allowance would provide a flat $50 per federally aided student (unduplicated count), for all Federal programs. The allowance could be earmarked exclusively for administration of student aid programs.

B. Encourage the self-development of small colleges.

Project support to postsecondary institutions is now provided by a variety of categorical programs, from those addressing special national needs, such as USOE's Developing Institutions (Title III, HEA), Language and Area Centers (Title VI, NDEA), and NSF's programs supporting undergraduate science instruction, to those

directed at certain functional areas such as NIH's project awards supporting college libraries, undergraduate instructional equipment, and community services. These programs offer potentially significant help to small colleges operating on marginal budgets, even though such project support is only short term.

The participation of small colleges in these programs could be reexamined; in some cases, selection procedures and criteria tend to favor larger, nationally known institutions, resulting in underrepresentation of smaller colleges. The President could direct all Federal agencies administering categorical support programs for postsecondary institutions to review their eligibility criteria and priorities to assure that they encourage equitable participation by smaller institutions.

Attention could also be given to the participation of smaller colleges in the Developing Institutions program. Title III, HEA could be modified to focus more directly on the needs of smaller institutions with high proportions of students who need financial aid. For the past decade, the program has primarily supported the historically black colleges: These institutions (particularly those lacking private endowments) could be made self-supporting through the award of one-time endowment grants. Priority for basic grants under Title III could be directed to small colleges with high proportions of needy students, such grants, awarded on a formula basis to all qualified institutions, could be used by the institutions for own self-development (including redefinition of goals, revision of academic objectives, retraining of faculty, and reform of administrative structure). Institutional use of Title III funds could be closely coordinated with state planning activities.

C. Provide loans and cost reimbursement to help institutions meet the financial burden of implementing federally mandated social programs.

Many federal programs that affect postsecondary institutions have been initiated in the last decade to bring about vitally important social goals. Often, these programs impose significant, but generally unrecognized, cumulative costs on institutions. For example, the costs of meeting improved standards of employee safety and health, as promulgated by the U.S. Occupational Safety and Health Administration, are estimated at over $3 billion. The costs of redesigning, remodeling, and replacing outdated institutional facilities and equipment to make them more energy-efficient is estimated at over $8 billion. Other programs (pensions, unemployment compensation, affirmative action) require additional staff training and increased administrative activities such as collecting data, keeping records, and reporting to federal agencies. Such programs are particularly burdensome to small private institutions.

Where appropriate, administrative allowances could be paid to institutions as partial reimbursement of the costs of complying with Federal regulations. Where federally imposed standards (e.g., health and safety, energy efficiency, access for the handicapped) require major remodeling of facilities, low-interest loans could be made available to facilitate compliance.

D. Provide Federal matching grants to states which make institutional support funds available to private institutions.

To avoid duplication of expensive facilities, some states now provide direct formula assistance to private institutions for

the purchase of high-cost professional programs. Federal matching grants could encourage further development of such programs.

E. Review Administration policy on cost-of-education payments.

In Section 419 of the Education Amendments of 1972, authorizing cost-of-education payments to institutions, Congress recognized a Federal responsibility to help meet the cost of educating federally-assisted students. This authority has never been funded. Meanwhile, private institutions have increasingly had to use their own funds to cover the deficit in student aid revenue as related to student aid expenditures; they now spend twice as much on student aid as they receive. Recent Administration policy has supported student aid and opposed "institutional aid". But both are part of the total stream of education funding: Student aid helps to support institutions and institutional aid helps strengthen academic programs. Exclusive emphasis on student aid as a long-term policy does not assure that students will continue to receive quality education; unless institutions are concomitantly assisted, their capability to deliver such an education could well deteriorate.

As a part of the review of Administration policy, consideration could be given to simplifying the current authorized formula for reimbursing institutional cost-of-education based on institutional size. One possibility is to award a fixed sum (e.g., $200) for each federally aided student whatever the size of the institution.

F. Measures for relieving acute financial distress.

In addition to measures that will promote the future viability of institutions, the Federal government could consider a series of measures to assist private institutions which suffer severe

financial distress and need emergency help to survive. Such measures would include (but not necessarily be limited to) provisions for overcoming indebtedness, which threatens the continued existence of many institutions currently serving a significant number of students.

As one means of easing the financial pressures on overextended institutions, Federal lending programs (both OE and HUD) could grant forgiveness or declare moratoriums on the repayment of construction loans. USOE now grants moratoriums to institutions which are unable to make current repayments on academic facility loans, but HUD does not for its dormitory loans. The law pledging dormitory revenue receipts to federal accounts could be modified to provide partial moratoriums that would enable institutions to bridge difficult periods in their financial income/expenditure relationships. Institutions which cannot make current payments on debt are by definition in distress. Federal policy could ease the burden on those institutions that borrowed to build facilities in anticipation of increased enrollments which may not have materialized. The possession of those facilities by the government in the event of default is in the best interest of neither the government nor the institutions.

IV. Incentives for Private Support of Postsecondary Institutions

Private giving, an important resource for all colleges and universities, is particularly critical for small institutions that lack large endowments. Tax proposals which lessen incentives for philanthropic giving would jeopardize this source of support.

In recent years private giving has not kept pace with institutional expenditures. Moreover, the imputed tax advantage that colleges and universities have historically received because of their nonprofit status has been substantially eroded over the last 15 years by increasing employment taxes.

Federal tax policy can provide positive incentives for private giving to colleges and universities. Tax credits or deductions for gifts to educational institutions could encourage giving by taxpayers in lower income brackets as well as by the wealthy. Tax provisions which offered to lower-income taxpayers incentives for charitable giving similar to those enjoyed by taxpayers in the higher brackets would stimulate important new sources of support for education and at the same time improve the equity of the tax system. Ways could also be sought to provide appropriate tax incentives for saving to meet future educational expenses.

NEXT STEPS

A clear recognition by the Federal government of the value of private higher education as a critical national resource calls for a continuing review of educational conditions and needs aimed at timely intervention by the government to preserve that resource. Government should be aware both of the consumer interests of students and of the capacity of institutions to satisfy those interests. If Federal laws and programs are to fulfill their purpose of sustaining the health and vigor of a truly independent private sector of higher education, they must be responsive to economic and social change. The U.S. Office of Education could build a continuing capacity to monitor the financial condition of all sectors of higher education, through its own statistical studies and through periodic analytical studies. In addition, the Office could subject its programs to intensive review by groups of external advisors (not advisory committees) who are given opportunities for critically reviewing current approaches and proposing alternative approaches.

There follows a summary listing of policy options which could be considered in designing specific Federal steps to encourage the continued vitality of America's small private liberal arts colleges.

EXHIBIT A

ADVISORS TO COMMISSIONER OF EDUCATION AND
PRESIDENT OF THE AMERICAN COUNCIL ON EDUCATION

Dr. Howard R. Bowen, R. Stanton Avery Professor of Economics and Education, Claremont Graduate School

Dr. Ernest L. Boyer, Chancellor, State University of New York

Dr. Milton K. Curry, Jr., President, Bishop College

Dr. Rhoda M. Dorsey, President, Goucher College

Dr. Melvin A. Eggers, Chancellor and President, Syracuse University

Mr. Scott A. Fisher, President, Fisher Junior College

Fr. John Fitterer, S.J., President, Association of Jesuit Colleges and Universities

Dr. Luther H. Foster, President, Tuskegee Institute

Dr. Alexander Heard, Chancellor, Vanderbilt University

Dr. Candida Lund, O.P., President Rosary College

Dr. G. Theodore Mitau, Chancellor, Minnesota State College System

Dr. John D. Moseley, President, Austin College

Dr. George N. Rainsford, President, Kalamazoo College

Dr. William Spoelhof, President, Calvin College

Dr. Jim Sullivan, Executive Director, Oregon Independent Colleges Association, Lewis and Clark College

Dr. Howard R. Swearer, President, Carleton College

February 9, 1976

POSSIBLE ELEMENTS OF FEDERAL POLICY SUPPORTING PRIVATE HIGHER EDUCATION

I. HOW PRIVATE INSTITUTIONS CAN BE ASSISTED WITHIN THE NATIONAL GOAL OF EQUALIZING EDUCATIONAL OPPORTUNITY.	IMPACT ON PRIVATE SECTOR	COMMENTS
A. New Programs and Modifications to Existing Programs		
1. Create true BEOG entitlement for students; create institutional entitlement for SEOG's with $400 minimum award, SEOG funding levels tied to BEOG funding level.	Substantial increase in BEOG funds, major shift of SEOG from public to private. Total BEOG cost: $1.982 billion; private share: $390 million. Total SEOG cost: $550 million; private share: $401 million.	Build on (BEOG) program with broad Administration and Congressional support, which already has partial entitlement feature, plus SEOG program which is already in existance. Would assist students across the board.
2. Design a new two-level BEOG award which covers a higher level of student need at first level of actual student cost--to assure access--and a lesser percentage of need at second level of cost--to provide a measure of choice. One award combines current BEOG/SEOG. Leaves a uniform portion of self help (or other awards) to be met by all awardees.	Provide about same as current proportion of BEOG/SEOG funds to private colleges--but larger grants of funds to both sectors--depending on formula.	One award accomplishes the purpose of two current programs--but with greater assurance that funds are actually used in combination for the most needy students--also overcomes current inequities inherent in BEOG 1/2 cost limitation and SEOG state allotment formula.
3. Increase authorization and appropriations of State Student Incentive Grant program, and modify it to insure participation of both public and private institutions and portability of grants between states.	Would substantially increase State support to privates, which now receive 47% of total appropriations.	Provides "cost sharing" with states and has capacity to stimulate state effort. State policies are however still unpredictable and diverse. Assists broader spectrum of income levels than BEOG/SEOG.

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	IMPACT ON PRIVATE SECTOR	COMMENTS
4. Legislate federal/state matching program (as new section of SSIG) to reduce tuition gap between public and private institutions by making grants to private institutions--based on average State subsidy for State supported schools--for each student to be applied to each student's tuition. Include portability.	Primary benefit to the six states with large private enrollments.	Further encourage existing trend in states to improve competitive position of private institutions to recruit middle-income students; raises issue of possible incentives for further tuition increases.
5. Simplify cost-of-education legislative formula in HEA IV by substituting a formula of $200 per federally-aided student, including BEOG, SEOG, CWS, SSIG, and NDSL recipients.	Would provide a base of institutional support for publics and privates. Full funding would cost $401 million, of which privates would receive $84 million.	Assists institution with cost differential between tuition income and actual expenditure per student for Federally aided students.
6. Increase 3% administrative allowance for student aid programs to 5%, or alternatively $50 per aided student (unduplicated count), and include BEOG recipients and veterans; add $10/GSL student administrative allowance.	Additional funds for all institutions.	Provide reimbursement to institutions for existing costs as well as improved administration.
B. Funding Levels of Existing Programs		
1. Increase authorization and appropriations for college work/study program.	Help all institutions. Privates now receive 31% of CWS funds.	Assist broader spectrum of income levels of students.
2. Increase authorization and appropriations for Special Programs for the Disadvantaged (Upward Bound, Special Services, Talent Search, Equal Opportunity Centers).	Useful for institutions with substantial disadvantaged populations. Privates receive 19% now of total appropriation, including EOC's.	Ease the burden of compensatory services.

	IMPACT ON PRIVATE SECTOR	COMMENTS
II. HOW PRIVATE INSTITUTIONS CAN BE ASSISTED WITHIN THE NATIONAL GOAL OF STRENGTHENING THE DUAL SYSTEM OF HIGHER EDUCATION		
A. New Programs		
1. Legislate block matching grant to states for support of higher education.	Benefit all institutions.	Strengthen state responsibility for higher education; uncertain state response; possible undesirable state control.
2. Legislate program providing "one time" endowment funds for private institutions who lack private endowments and who enroll large numbers of low income students.	Benefit only institutions selected for funding.	Stability for weaker institutions leading to self-supporting condition; current condition of stock market makes utility uncertain. Selection criteria would be difficult to devise.
B. Tax Expenditures		
1. Legislate pre-payment Education Security Fund giving tax credits or deductions for individuals' savings to finance higher education.	No direct help to instituions.	Encourage savings for educational purposes. New proposal needing further development and analysis of impact.
2. Change tax laws to allow persons who do not itemize their deductions on their tax returns to deduct their charitable contributions in addition to taking the standard deduction--as proposed by Filer Commission.	Random benefit to all institutions.	Encourage contributions to institutions from wider income group. Avoids church-state issue.
3. Change tax laws to give all taxpayers a tax credit up to $100 (or more) for their charitable contributions.	Random benefit to all institutions	Encourage contributions to institutions from broader income group. Avoids church-state issue.

	IMPACT ON PRIVATE SECTOR	COMMENTS
4. Change tax laws to permit tax credits credits or deductions for tuition and fees.	Primary benefit to individuals.	Less government bureaucracy than grants; relief for middle-class tax payers; possible incentive for tuition increases.
III. MEASURES TO ASSIST INSTITUTIONS WITH INNOVATION AND DEVELOPMENT		
1. Increase authorization and appropriations for Developing Institutions Program (HEA III) and allow participation of more institutions on a formula basis recognizing low income student body composition.	Privates presently receive 51% of the funds appropriated.	Possible significant support for academic and administrative improvement.
2. Increase authorization and appropriations for co-op education to assist liberal arts colleges among others to integrate a "world of work" component into their academic program.	Benefit only successful applicants. Privates receive 34% of existing appropriations.	Possibly significant support for academic and administrative improvements; project support would not assure funding.
3. Legislate program for public and private institutions providing "institutional update" funds on a project basis for retraining of faculty, redefinition of institutional goals, review of academic programs, installation of broad based budget development process.	Benefit only successful applicants.	Possibly significant support for academic and administrative improvements; project support would not assure funding.
IV. MEASURES TO RELIEVE ACUTE FINANCIAL DISTRESS		
1. Forgive existing debt for private institutions on both OE and HUD construction loan programs.	Benefit institutions with existing loans.	Relieve debt service pressure, but might jeopardize future loans. Inequitable for those who have repaid. (HUD and OE debt total: over $3.5 billion).

	IMPACT ON PRIVATE SECTOR	COMMENTS
2. Forgive only OE construction debt (not HUD debt) in that OE loans were not for income-producing as are dorms built with HUD loans.	Benefit institutions with existing loans.	Relieve debt service pressure, but might jeopardize future loans. Inequitable for those who have repaid (OE debt: $500 million).
3. Moratorium on repayment of OE loans for those unable to meet debt payments.	Benefit institutions with existing or future loans.	Possible under existing legislation.

APPENDIX A
ANALYSIS OF A TWO-LEVEL BASIC EDUCATIONAL OPPORTUNITY GRANT

Rationale

Equal opportunity for postsecondary education cannot be realized unless students have not only access to an institution but also a reasonable choice of the kinds of institutions most appropriate to their needs. Existing Federal student assistance programs do not provide an effective mix of access and choice. The campus-based SEOG program, the principal vehicle for choice, is not coordinated with the BEOG access grants. Because of SEOG's inequitable allocation formula and the underfunding of the program, choice cannot be provided reliably to all students who need such assistance.

One possible solution to this problem is to merge BEOG and SEOG into a single, tuition-flexible grant program with the following characteristics:

Proposal

The grant could be made in two stages, the first providing access to low-priced educational programs, the second providing a measure of support for higher-priced programs when they are selected by the eligible student. The amount of both stages would be determined in terms of actual cost of attendance to each student, less expected family contribution; and the award would be progressive in relation to student need and program costs, but the first "access" stage of the award would meet a higher proportion of need than the second "choice" stage, thus reflecting a higher priority for the former. All awards would leave a need "gap" to be filled

by required self-help or other student aid.

Pros and Cons

Such a two-level BEOG would have several advantages:

1. It would provide a single need-based, tuition-flexible Federal grant as the basis for students to plan their educational programs, removing the uncertainty of two separate awards.

2. A single, simplified system would be established to determine need.

3. The inequities and uncertainties of the current SEOG State allocation formula would be eliminated.

4. The controversial and inequitable features of the BEOG half-cost limitation and the SEOG matching requirement would be removed and replaced by a clear national policy that stipulated a stated percentage of student need for both stages of the grant.

5. A significantly larger (and more equitable) number of students would receive the second-level "choice" award than now receive the SEOG.

The proposal has some disadvantages as well:

1. It might be difficult to make such major substantive changes in the existing programs at this late stage in the process of congressional consideration.

2. The need to retrain student aid officers and Federal personnel to administer the new program might pose problems.

3. The new program, if funded at full eligibility, has a higher cost potential than the present program.

Specifications

For discussion purposes, legislative specifications for the two-level BEOG program may be described as follows:

1. Each student's expected family contribution would be calculated in terms of the current Basic Grants methodology.

2. If the family contribution is less than $2,400:

(a) Compute the first-level award on 80 percent of need (cost of attendance minus family contribution) for the first $2,400 of actual cost of attendance to the student.

(b) Compute the second-level award on 40 percent of need, related to the actual cost of attendance in excess of $2,400 and not to exceed $4,000. (If the family contribution exceeds $2,400, the grant would be 40 percent of cost of attendance minus family contribution.)

(c) Combine the two levels of award into a single grant.

3. Awards would not be made for amounts less than $200.

4. Awards would be reduced on a pro-rata basis if funds are insufficient for full funding of the formula.

To provide uniform levels of costs of attendance which define access and choice for this analysis, $2,400 is used because it corresponds to the national average per-student cost of attending four-year public institutions, while $4,000 is used because it corresponds to the national average cost of attending private four-year colleges. Different figures could be used to increase or decrease the cost of the program accordingly.

For purposes of weighting the two levels of awards, the percentages of 80 percent and 40 percent were arbitrarily selected. Other percentages (75-50, 66-33, 60-30) could also be selected to alter the cost and the distribution of funds between public and private institutions.

Following are tables which show how the formula would apply

under different circumstances of need and estimates of cost and participation under variations in the formula.

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SAMPLE CASES FOR APPLICATION OF TWO-LEVEL BEOG AWARD
(Covering 80% of Need Up to $2400 COA and
40% of Need for COA $2400 - $4000)

SAMPLE CASE	COST OF ATTENDANCE	- FAMILY CONTRIBUTION	= NEED	x AWARD RATE	= BEOG AWARD	OTHER FUNDS,[1] SELF HELP (NEED - AWARD)
A. Low Income Family ($6,000) Student Attending Low Cost Institution						
Level (1)	$2000	$ 0	$2000	80%	$1600	$ 400
B. Middle Income Family ($12,000) Student Attending Medium Cost Institution	$2800	$ 800	$2000		$1600	$ 400
Level (1)	2400	800	1600	80%	1440	400
Level (2)	400	0	400	40%	160	
C. Upper Middle Income Family ($17,000) Student Attending Higher Cost Institution	$3600	$2000	$1600		$ 800	$ 800
Level (1)	2400	2000	400	80%	320	
Level (2)	1200	0	1200	40%	480	
D. Upper Income Family ($20,000) Student Attending Maximum Cost Institution	$4000+	$2600	$1400		$ 560	$ 840
Level (1)	2400	2400	0		0	0
Level (2)	1600	200	1400	40%	560	840
E. Low Income Family ($6,000) Student Attending Maximum Cost Institution	$4000+	$ 0	$4000		$2560	$1440
Level (1)	2400	0	2400	80%	1920	480
Level (2)	1600	0	1600	40%	640	960

ACE BEOG Formula: Let CA = Cost of Attendance
FC = Family Contribution
Then
BEOG = .8 x (CA - FC), if CA, FC $\leq$ $2400
.4 x ($2400 - FC) + .4 (CA - $2400), if CA > $2400, FC $\leq$ $2400
.4 x (CA - FC) if CA, FC > $2400
Costs of attendance up to $4000 are allowed. Minimum award $200.

[1] May include College Work Study, student loans, state or institutional scholarships.

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Table 1

ESTIMATES OF COST OF TWO-LEVEL BEOG MODELS[1]
($ Millions)

All Students	Current BEOG Program		Two-Level BEOG-80/40% COA $2400/4000[2]		Two-Level BEOG-80/40% COA $2000/3500[2]		Two-Level BEOG-66/33% COA $2000/3500[2]		Two-Level BEOG-60/30% COA $2400/4800[2]		Two-Level BEOG-50/25% COA $2400/4800[2]		ACE BEOG/SEOG Proposal[3]	
	$1,268	%	$2,564	%	$2,235	%	$1,826	%	$2,011	%	$1,703	%	$2,532	%
Dependents	1,039	100	2,123	100	1,841	100	1,497	100	1,664	100	1,414	100	2,097	100
Family Income Less Than $6000	490	47	737	35	670	37	544	36	557	33	464	33	838	40
$6000-9000	289	28	481	22	427	23	349	23	367	22	306	22	506	24
$9000-15000	233	22	620	30	539	29	437	29	492	30	410	29	534	25
$15000-Over	26	3	284	13	204	11	167	11	248	15	234	16	218	10
Independent	229		441		394		329		347		290		435	
All Institutions	1,268	100	2,564	100	2,235	100	1,826	100	2,011	100	1,703	100	2,532	100
Public Four Years	609	48	1,171	46	1,050	47	858	47	916	46	762	45	1,068	42
Public Two Years	304	24	466	18	469	21	383	21	368	18	304	18	516	20
Private	266	21	769	30	581	26	475	26	605	30	535	32	792	31
Prop. Vocational	89	7	157	6	134	6	110	6	121	6	101	6	159	6

[1] All estimates based on 70 percent participation rate for students currently enrolled. Data supplied by the College Entrance Examination Board.

[2] Five variations of the two-level BEOG have been estimated--using varying percentages of award and varying levels of cost of attendance (COA) as shown in the column headings.

[3] Amounts represent estimated cost of ACE legislative proposals for new BEOG and SEOG.

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Table 2

ESTIMATES OF PARTICIPATION IN TWO-LEVEL BEOG MODELS[1]
(Thousands of Students)

	Current BEOG Program		Two-Level BEOG-80/40% COA $2400/4000[2]		Two-Level BEOG-80/40% COA $2000/3500[2]		Two-Level BEOG-66/33% COA $2000/3500[2]		Two-Level BEOG-60/30% COA $2400/4800[2]		Two-Level BEOG-50/25% COA $2400/4800[2]	
All Students	1,568	%	1,946	%	2,071	%	2,071	%	2,172	%	2,225	%
Dependents	1,283	100	1,611	100	1,696	100	1,696	100	1,792	100	1,847	100
Family Income Less Than $6000	492	38	438	17	458	27	458	27	445	25	444	24
$6000-9000	345	27	328	20	356	21	356	21	342	19	340	18
$9000-15000	464	31	539	34	610	36	610	36	614	34	606	33
$15000-Over	42	3	306	19	271	16	271	16	391	22	457	25
Independent	285		335		375		375		380		378	
All Institutions	1,568	100	1,946	100	2,071	100	2,071	100	2,172	100	2,225	100
Public Four Years	753	48	903	46	994	47	994	47	1,032	48	1,020	46
Public Two Years	406	26	395	20	518	25	518	25	463	21	443	20
Private	310	20	538	28	435	21	435	21	557	26	642	29
Prop. Vocational	99	6	110	6	124	6	124	6	119	5	119	5

[1] All estimates based on 70 percent participation rate for students currently enrolled. Data supplied by the College Entrance Examination Board.

[2] Five variations of the two-level BEOG have been estimated--using varying percentages of award and varying levels of cost of attendance (COA) as shown in the column headings.